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STATE FOR EAP/MLS and EEB/CIP WWITTEMAN  
DEPT PASS TO USTR DAVID BISBEE AND JONATHAN MCHALE  
COMMERCE FOR OTEC/ITA CDICKSON

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SUBJECT: CAN YOU HEAR ME NOW? VIETNAM'S MOBILE PHONE SECTOR  
CONTINUES TO GROW RAPIDLY

REF: A) 06 Hanoi 3096 (Mobile Phone Sector's Strong Growth);  
B) 07 Hanoi 2098 ("Vietnam's Young and Richer Population")

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¶1. (SBU) Summary: Vietnam's telecommunication market continues its rapid development, underpinned by the strong performance of the mobile phone sector, which surpassed 35 million subscribers in 2007. New market entrants and more flexible government regulations helped to drive down costs and increase investment in the sector. The race to get official go-ahead to provide new technologies (3G and WiMAX) has begun, with the losers facing the threat of marginalization. Privatization of the state-owned mobile companies remains a Government of Vietnam (GVN) objective and makes the sector a promising one for U.S. investors, but the process continues to hit bureaucratic delays and may run up against powerful entrenched interests. End summary.

PLUGGING IN  
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¶2. (U) Vietnam's telecommunications market, ranked as the world's second-fastest growing in 2006 by the International Telecommunication Union (ITU), continues to develop rapidly on the strength of its mobile phone sector. According to the Ministry of Information and Communications (MIC), Vietnam's seven mobile phone networks had more than 35.44 million subscribers by the end of 2007 - a 61 percent increase over 2006. Fierce competition among providers led to lower fees and improved service quality, which attracted nearly 14 million new mobile subscribers in 2007, more than double the number of new customers in 2006. The telecom market is among the fastest growing sectors of Vietnam's economy, and is attracting increasing attention from foreign investors, particularly after Vietnam's 2007 accession to the World Trade Organization (WTO).

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¶3. (U) The potential for future profits in this sector, driven by Vietnam's young, tech-savvy population, continues to fuel competition among Vietnam's seven service providers, all of which are wholly or majority state-owned. Former telecom monopoly Vietnam Posts and Telecommunications Group (VNPT) owns two of the three largest networks - Mobifone and Vinaphone - and has 54 percent of the market share with a combined 19 million customers. The third major player, military-owned Viettel Corporation, is the largest single operator in Vietnam with a reported 15 million subscribers at the end of 2007. These three major players all use GSM technology.

¶4. (U) The three CDMA technology-based providers, S-Phone, EVN

Telecom (run by state-owned Electricity of Vietnam) and HT Mobile, a joint venture between Hanoi Telecom and Luxembourg's Hutchison Telecom, have been unable to keep pace with the competition in the race for new subscribers. The three providers have a total of 1.5 million customers. Local experts cite the lower initial quality of service of CDMA technology in Vietnam and consumers' desire to frequently change their handsets (which GSM technology makes possible) as the main reasons for CDMA's relatively limited success. HT Mobile sought and received approval from MIC to switch from CDMA2000 to GSM based mobile services in 2007, citing its lower-than-expected sales and the limited popularity of CDMA.

15. (SBU) Joining the fray in 2007 was new market entrant G-Tel, a joint venture between the Ministry of Public Security (MPS), Russia's second biggest telecom operator Vimpelcom and U.S.-based Millennium Global Solutions Group. G-Tel is expected to begin providing services by the end of 2008. G-Tel's emergence presents a new competitive challenge for the incumbent carriers; combining the forces of a powerful MPS which holds a significant voice in government policy-making and the resources and technical know-how of a multi-national like Vimpelcom.

#### NEW TECHNOLOGIES

16. (SBU) MIC approved G-Tel's business license in "near record speed," according to an industry contact involved with the deal. The approval came as MIC prepares to issue a limited number of third generation network (3G) trial licenses. 3G is seen by many as the future of Vietnam's mobile market. The same contact noted that the timing of G-Tel's licensing approval was "not coincidental" and is "very telling" of G-Tel's potential to secure one of the four highly sought-after licenses (it is limited to four due to limited frequency availability). Recipients will be determined by a technical "exam" MIC will administer. Administration of the exam

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has been delayed several months (it is now slated to occur in May), enabling GTel time to participate.

17. (U) In addition to 3G technology, Vietnam is also testing WiMAX (Wireless Interoperability for Microwave Access) as a means to provide wireless data connections nationwide, which would hook up many of Vietnam's rural communities and more closely draw them into the country's economic development. In early March, 2008, the ministry granted EVN Telecom, Viettel, VinaPhone, and MobiFone permission to test WiMAX, on a trial basis, in selected localities nationwide.

#### LOWER PRICES

18. (U) In 2007, MIC also relaxed its tight grip over the mobile phone sector by giving service providers greater leeway to determine their own prices. Phone rates, which once used to be completely set by the government, can now vary within a given price range. Phone operators must still get MIC to approve their pricing. This move has led to lower prices for consumers, and has spurred the telecom companies to redouble their investments in network expansion to capture new subscribers - with Viettel doubling the number of its base transceiver stations (BTS) in 2007, while Vinaphone and Mobiphone increased the number of their BTS by 50 percent.

#### BLASTING INTO THE NEXT FRONTIER

19. (U) Vietnam launched its first Satellite, VINASAT-1, in French Guyana on April 19 2008, bringing to fruition a long-standing plan for Vietnam to establish itself in space. VNPT signed a \$200 million contract with Lockheed Martin in May 2006 to manufacture and launch the satellite. VINASAT-1 will improve telecommunications in Vietnam by transmitting radio, television and telephone communications to all corners of the country. The satellite will enable Vietnamese to use new services such as mobile broadcasting, direct-to-home television, video conferencing and data transmission. In addition, VINASAT-1 will improve the nation's communication

infrastructure by removing dependence on ground networks and equipping 100% of Vietnam's rural communities with telephones and televisions. Vietnam now joins fellow ASEAN nations Thailand, Malaysia, Indonesia, Singapore and the Philippines in space.

#### EQUITIZATION

110. (SBU) One of the most closely watched developments in Vietnam's mobile market is the planned "equitization" (partial privatization) of leading operators Vinaphone, Mobifone and Viettel. This long-awaited process has been delayed numerous times due to unclear technical regulations and difficulties in valuing the companies' assets (REF A). MIC is urging Mobifone to avoid further delays and accelerate its planning in order to equitize before the end of 2008. Mobifone's Director of Planning and Sales, Mr. Nguyen Dinh Chien, told Econoff that the company will equitize in two phases - first selling approximately 20 percent via a domestic initial public offering, and then selling up to 30 percent to a single "strategic partner" of their choosing. Mobifone claims that it has more than 10 foreign companies interested in becoming the strategic investor.

111. (SBU) Vinaphone is also expected to equitize, although some quarters of its parent company VNPT remain hesitant to sell off significant ownership. VNPT brass recently told MIC Minister Le Doan Hop that they would like to retain total control of Vinaphone to use it as the firm's "technology incubator." They also appear loath to let go because mobile services provide the lion's share of VNPT's revenues. Viettel's Deputy Director General Mr. Le Dang Dung told Econoff that Viettel will likewise wait to see how Mobifone's equitization goes before it begins to sell off its own shares.

#### COMMENT

112. (SBU) Vietnam has a young, numerous (85 million) and increasingly affluent population (REF B) -- all signs pointing to continuing growth in the telecom sector. With such rapid growth in recent years, mobile services have filled the coffers of companies like VNPT and Viettel, and senior officials in these companies do not appear to be in any hurry to relinquish control over those revenue streams. The GVN's commitment to equitize the sector offers opportunities to U.S. investors, if only it can overcome the reluctance of entrenched interests. The emergence of G-Tel and the rush for approval of new technologies may leave several of the service providers in the cold, thereby limiting the potential domestic partners for foreign investors, and increasing the stakes

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for the equitization of the "big three."

MICHALAK